Treasury Department,
Bureau of the Mint,
Washington, D. C., April 4, 1899.

Hon. D. B. Henderson,
Dubuque, Iowa.

Dear Sir:

Complying with your request, I offer the following suggestions as to currency legislation.-

If no radical change in our monetary system is contemplated and no government paper is to be retired, the gold reserve now nominally held against that paper, which in practice has been treated as free gold available for ordinary disbursements, should be separated upon the books from the other cash holdings of the Treasury and be dedicated exclusively to the purpose for which it was created.

It should be made obligatory upon the Secretary of the Treasury to redeem United States notes in gold on demand, although it would be better to make that provision a broad one, applying to all government obligations. The Secretary should be directed to replenish or supplement the reserve by transfers from the other holdings of the Treasury or by bond sales, in sufficient amount to meet all demands. This provision should make clear that the resources of the Government are unequivocally behind its paper, and there can be no change in its policy without a change in the statute. The notes redeemed should be reissued only in exchange for gold.

I think that more safety would be secured to our currency

by this simple provision. That is to say, by doing thia and nothing more, the gold standard would be maintained. With no provision for increasing the money stock except by the coinage of gold, and with the present and prospective great output of that metal, the proportion of gold in our currency must rapidly increase. Each year under these conditions will make that anomalous element, the over-valued silver, of less importance.

This will not be true, however, if, yielding to a popular suggestion, you proceed to increase the circulation of bank notes under the present system. Unless you so change the present banking system as to make the banks redeem their notes in gold, and without adding to the burdens of the Treasury, I respectfully urge that you do nothing to increase bank note circulation. Opinions differ as to how much this circulation would be increased by permission to issue up to the par value of the bond deposits, but in my opinion whatever increase resulted would be objectionable for the following reasons:

There is no scarcity of money in the country. How to increase the money stock is not one of your problems. The duty of first importance before you is to relieve the Treasury of demands for gold. The easiest and simplest way to do that is by allowing the stock of gold in circulation to increase. If you provide for additional bank notes on bond security, you will drive abroad or keep abroad just so much gold that we will otherwise hold.

-3-

Let alone this gold will stay in the country. It will increase the stocks in the banks, and the banks will pay it out and freely instead of turning their customers on the government's meagre hoard.

Remember that the country cannot absorb an indefinite amount of money. Our banks have large balances in Europe now, kept there because they can do better with money there than here. The money supply levels itself over the world. The stock in the United States can be raised to a certain volume varying with the demand and then it will begin to overflow to other countries. The gold in our circulation may be called the cream; it floats on top and is always the kind that floats away. It is when this outward movement comes that demands on the Treasury, which it is your problem to provide for, begins. The more paper or silver you pump into the circulation the more likely gold is to go, the more persistent the drain will be when it begins, and the more certainly will the burden of supplying all the demand fall on the Treasury.

The present situation is described by the following paragraph in the New York Sun of April 2nd, 1899:

> Because of a scarcity of paper currency a number of the local banks request large dealers, who call upon them for the money for their local payrolls, to take part of the money in gold. Gold is abundant. The banks are endeavoring to encourage a greater use of it, and they report that many more \$5. gold pieces are now in circulation than formerly. Many requests that have not been granted have been coming to the local banks from their Western correspondents for shipments of small bills. The total legal tender holdings of the associated banks, as shown by yesterday's bank statement, amount to \$53,079,800, compared with \$187,144,300, held in specie, nearly all of it in gold coin.

So long as this situation is maintained there will be no demands on the Treasury for redemption. If an exporter wanted gold now in New York, his bank, instead of paying his check with legal tenders and directing him to the Treasury for gold, would pay his check in gold. The easiest, simplest way to protect the Treasury is to maintain this situation, and you are looking for plans that require no explanation.

There is undoubtedly a demand for more bills. People in the East are accustomed to the use of paper and ask for it. They want even $1. and $2. bills. This demand does not signify that there is any scarcity of money. The country is gorged with money, East and West. On the Pacific Coast, instead of protesting against coin the people will have no paper, showing that it is all a mere matter of custom.

I make no opposition to a banking system under which notes may be issued redeemable in gold. Such a system has many advantages over the use of metallic money. It is a cheaper medium of exchange and is more responsive to the demands of trade. But if you are not going into the task of organizing such a system, by all means don't extend a system which throws all the burden of furnishing gold on the Treasury. Confine yourself to providing for the obligations the Treasury now has and let the money stock increase in the one kind that requires no redemption.

It is plausible to say that bank note issues will be "safe" up to the par value of the bond security. That is not the point.

Nor is it to the point to say that these notes do not have to be redeemed in gold. They displace gold in the banks, they expel gold from the country, they increase the demands for gold on the Treasury and make gold harder for the Government to get. Just now everything is lovely. But when trade slackens and a revulsion comes, the paper of all kinds now in active use will drift to New York, pile up there, be poured into the custom house for duties, thus cutting off the Treasury's gold receipts and simultaneously force gold exports, with demands on the Treasury.

Furthermore, what thanks will you get for such action? The currency reformers who are pressing for some action know that this is not a step toward their ends. The opposition to all reform will say it was done for the benefit of the banks. In fact no benefits will accrue to anybody except the present holders of government bonds. It will put up the price of bonds.

One provision in addition to the first recommended should be made. There should be opportunity for banks to make an emergency issue. Commercial crises will occur. No financial system can wholly provide against them. At such times there is an extraordinary demand for ready money. It becomes not a question of security or solvency but of ready cash. Money cannot be borrowed on government bonds. Solvent houses are ruined because credits to which they are accustomed are withdrawn. The business community is entitled to some protection against such panics. That the banks will increase their note issues at such a time if a method is provided is evident from

the issues of clearing house certificates in many cities during the panic of 1893.

At such a time there is no danger that increased issues will expel gold or embarrass the Treasury. Hence there is no objection to special issues then, provided they are retired when the special need is past. This expansion and retirement of the notes would be accomplished by permitting National Banks to issue unsecured notes to the amount of 25 percent. of their capital under a tax such as six percent. per annum. This tax should be a fixed rate per week, or semi-monthly, so that prompt issue and retirement would be effected. The Government should use these taxes to create a fund to redeem the notes of failed banks. It should guaranty the note holders against loss, but share with other creditors in the assest of these banks. The tax will much more than make the Government whole.

I do not consider that the privilege of organizing banks under $50,000. capital in the National system would be of any value to the public. There is no lack of banks in the country. There isn't a town of 300 people in Iowa without banking facilities, and for the reasons already given I am opposed to encouraging larger bank note issues under the present system. I repeat that how to increase the stock of money in the country is not one of your problems. That will take care of itself.

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have a national bank organized there under the present system. After the organizers have paid a premium for their bonds and received the notes to which they would be entitled even at the par value of the bonds, they have less money to lean to the public than they had before.

The two innovations proposed viz: to make the gold reserve a fixed quantity and to provide for emergency issues, leaving for the present all increase in our money stock to accumulate in gold, will leave us in good position to take up the question of a bank note currency at a future day. It is entirely healthy to accumulate more gold. We have an enormous stock of credit currency. We went to the very brink of disaster in creating it. As the stock of gold increases and is seen in use, the people will come to appreciate more fully the important part it plays in our monetary system and as the money question becomes less acute it will be possible to formulate a carefully considered plan for a bank note currency convertible into gold.

One additional provision should be easily agreed to, viz: give the Secretary of the Treasury discretion to coin from the silver bullion now in the Treasury such subsidiary coins as may be called for. It is imperative that something should be done to meet the demand for silver change. There is now no provision of law for increasing the stock. Treasury Notes should be retired to correspond with the amount thus issued.

Respectfully yours,

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